

## **FISCAL NOTE**

### **SB 823 - HB 1270**

March 15, 2007

**SUMMARY OF BILL:** Reduces from 6% to 5% the state sales tax rate on ingredient food and whole food, effective July 1, 2007.

#### **ESTIMATED FISCAL IMPACT:**

**Decrease State Revenues - \$2,956,000 / General Fund**  
**\$6,628,000 / Education Fund**  
**\$37,000 / Department of Revenue**  
**\$94,000 / Sinking Fund**

**Increase State Expenditures - \$86,000 One-Time**

**Decrease Local Govt. Revenues - \$468,000**

#### Assumptions:

- “Ingredient food” means a common ingredient used in preparing food for human consumption, including, but not limited to, salt, pepper, spices, sugar, and flour; provided that ingredient food does not include any ingredient containing artificial sweeteners, artificial flavors, artificial colors or preservatives, or any combination thereof.
- “Whole food” means untreated food for human consumption, including, but not limited to, fresh, frozen or canned vegetables, fresh, frozen or canned fruit, pure juices, unprocessed meats, nuts, rice, coffee and tea; provided that whole food does not include any food containing artificial sweeteners, artificial flavors, artificial colors or preservatives, or any combination thereof but may contain vitamin additives.
- According to the Department of Revenue (DOR), taxable sales of food and food ingredients in Tennessee for FY05-06 were approximately \$7,753,600,000.
- Based on historical collection patterns, taxable sales of food and food ingredients are estimated to grow by approximately 2.5% per year.
- Taxable sales for food and food ingredients are estimated to be approximately \$8,146,126,000 for FY07-08.

- According to DOR, \$1 of every \$8 (12.5%) spent on food and food ingredients is estimated to be spent on ingredient food and on whole food as defined in this bill.
- Adjusted taxable sales are estimated to be \$1,018,266,000 per year ( $\$8,146,126,000 \times 12.5\% = \$1,018,265,750$ ).
- The decrease to state sales tax revenue is estimated to be \$10,183,000 per year ( $\$1,018,266,000 \times 1\% \text{ reduction} = \$10,182,658$ ).
- Local governments are apportioned a 4.5925% share of state sales tax revenue. Therefore, the decrease to local government revenues is estimated to be \$468,000 per year ( $\$10,183,000 \times 4.5925\% = \$467,654$ ).
- Local option sales tax revenue remains unchanged.
- The net decrease to state revenues is estimated to be \$9,715,000 per year ( $\$10,183,000 - \$468,000 \text{ local share} = \$9,715,000$ ).
- The \$9,715,000 in state sales tax revenue would be apportioned as follows: \$2,956,000 to the General Fund, \$6,628,000 to the Education Fund, \$37,000 to DOR, and \$94,000 to the Sinking Fund.
- The increase to one-time state expenditures for software and computer enhancements is estimated to be \$86,000.

### **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director